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FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 0112
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 001511

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ENERGY FOR WILLIAMSON; EB/ESC FOR GALLOGLY, GRIFFIN;
TREASURY FOR SAEED

E.O. 12958: DECL: 10/12/2012
TAGS: EPET EINV KU
SUBJECT: KUWAIT PETROLEUM TO CLOSE WASHINGTON OFFICE FOR
RESTRUCTURING, NOPEC

REF: A. KUWAIT 1064
¶B. KUWAIT 707

Classified By: Charge d'Affaires Alan G. Misenheimer for reasons 1.4 (b
) and (d)

¶1. (SBU) Kuwait Petroleum Corporation (KPC) General Counsel and erstwhile Director of KPC's Washington Office Shaykh Nawaf Saud Nasir Al-Sabah confirmed to econoff on 11 October that KPC will close its Washington office by the end of November. He explained that the Washington office had initially been created to handle U.S. government relations and U.S. business development. Shaykh Nawaf added that the potential threat that NOPEC posed to Kuwaiti investments in the U.S. (Ref A), combined with the daunting regulatory challenges and relatively high construction cost projections that convinced Kuwait to abandon previous plans to build a refinery in the U.S., led KPC's new CEO Saad Al-Shuwaib to conclude that the limited investment opportunities for KPC in the U.S. no longer justify the cost of maintaining an office and full-time staff in Washington. Nawaf said it costs about USD two million per year to maintain the Washington office. He added KPC's Houston office would continue to handle marketing in the U.S. and said he would now personally take responsibility for the Washington office's previous functions on an ad hoc basis. (Note: In previous conversations with econoff, Shaykh Nawaf indicated that the political furor over Dubai Port's World last year also influenced KPC's thinking about potential investments in the U.S.)

¶2. (SBU) The closure of the Washington Office coincides with other efforts to restructure KPC under new CEO Al-Shuwaib and Acting Oil Minister Mohammad Al-Olaim. On 10 October, KPC announced the appointment of new managing directors at a number of its subsidiaries. Among these, Farouk Al-Zanki, formerly Chairman and Managing Director of Kuwait Oil Company (responsible for exploration and production in Kuwait) will switch places with Sami Al-Rushaid, formerly Chairman and Managing Director of Kuwait National Petroleum Company (responsible for refining and marketing in Kuwait). This follows a change at the end of September of the composition of KPC's Board of Directors. The number of directors was reduced from thirteen to eight, and five seats are now occupied by outside directors. Al-Shuwaib has also changed the reporting structure of the corporation. Whereas previously each of the managing directors of KPC's ten subsidiaries reported to him directly, Al-Shuwaib now has the downstream subsidiaries reporting through KNPC and the upstream subsidiaries reporting through KOC. Shaykh Nawaf indicated that Al-Shuwaib is thinking about eventually consolidating all of the subsidiaries into one upstream company and one downstream company.

Comment

¶3. (C) Post believes that increasingly bleak prospects for Project Kuwait (the proposed 8.5 billion USD project to invite international oil companies (IOCs) to invest in Kuwait's upstream oil sector) (Ref B) and KPC's focus on the East rather than the West as its primary market and growth opportunity also played a role in Al-Shuwaib's decision. KPC now has active regional offices in Beijing, Mumbai, Tokyo, and Singapore, in addition to its London and Houston offices. Japan and Korea are the largest consumers of Kuwaiti crude and China is KPC's fastest growing market. KPC has been in ongoing talks with the Chinese to create a joint venture to build a major refinery and petrochemical complex in Guangdong. Regarding the other management changes at KPC, Post and local managers of IOCs agree that consolidation into upstream and downstream companies would probably be a positive change, but we are less encouraged by the changes in managing directors. While KPC's press release indicated that the move was "part of KPC's blueprint to overhaul the oil sector and develop its staff by means of injecting fresh blood into staffs of oil companies," in fact, all KPC really did was to rotate several of its existing senior managers into different roles without a clear reforming agenda. Of the twelve appointments announced, there were only three actual promotions: one from Acting Managing Director (MD) to MD, and two from Deputy MD to MD.

¶4. (C) Moreover, the motivation behind the decision to swap the KOC and KNPC MDs is obscure since neither has any experience in the other's industry. Shaykh Nawaf characterized this move as a sort of executive cross-training, intended to give KPC's top leaders broader

exposure to both the upstream and downstream parts of the corporation. If so, this may be a rare indication of succession planning at KPC. Al-Zanki and Al-Rushaid were both discussed as leading candidates for the KPC CEO position following the resignation of previous CEO Hani Hussein in April, but after the job went to Al-Shuwaib (former Chairman and MD of KPC's petrochemical subsidiary) it was widely expected that the two would serve out their respective terms as KOC and KNPC CEOs and then retire. CDA met separately with Al-Zanki and Al-Rushaid on 8 October, prior to the announcement of the management shake-up. Both seemed very focused on plans and priorities within their own respective subsidiaries only and evinced, at best, mild interest in and scant knowledge of what the other subsidiary was doing. Local managers of IOCs and mid-level managers within KPC are concerned that important decisions that need to be made within Kuwait's oil sector will be further delayed as these two MDs will need to be educated on the complex issues facing their companies.

MISENHEIMER